

**City of Keokuk**

**Independent Auditor's Report  
Management's Discussion and Analysis  
Financial Statements and Supplementary Information  
Independent Auditor's Reports on Internal Control and Compliance  
Schedule of Findings and Questioned Costs**

**June 30, 2008**

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## City of Keokuk

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
David A. Gudgel	Mayor	December 31, 2009
Susan Dunek	Mayor Pro-term	December 31, 2009
Douglas Matlick	Council Member-At Large	December 31, 2009
Mark Hoyt	Council Member-At Large	December 31, 2011
Michael O'Connor	Council Member-Ward 1	December 31, 2009
Scott Nichols	Council Member-Ward 2	December 31, 2011
Michael Baum	Council Member-Ward 3	December 31, 2009
Roger Bryant	Council Member-Ward 4	December 31, 2011
Justin Tuck	Council Member-Ward 5	December 31, 2009
Gary Stepp	Council Member-Ward 6	December 31, 2011
Susan Dunek	Council Member-Ward 7	December 31, 2009
John Russell	Finance Manager	Indefinite
Shirlee Laubersheimer	City Clerk	Indefinite
Tom Marion	Attorney	Indefinite
Thomas Crew	Chief of Police	Indefinite
Mark Wessel	Fire Chief	Indefinite



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## **Independent Auditor's Report**

Honorable Mayor and City Council of  
the City of Keokuk, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Keokuk, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Keokuk's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principals generally accepted in the United States of America.

The financial statements referred to above include only the primary government of the City of Keokuk, Iowa, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Keokuk, Iowa, as of June 30, 2008, and the changes in its cash basis financial position for the year ended in conformity with the basis of accounting described in Note 1. In accordance with accounting principles generally accepted in the United States of America, the City of Keokuk, Iowa, has issued separate reporting entity financial statements for Keokuk Water Works. The City has not issued such reporting entity financial statements for Keokuk Public Library Foundation.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position - cash basis of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Keokuk as of and for the year ended June 30, 2008, and the respective changes in financial position - cash basis thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our reports dated December 8, 2008 on our consideration of the City of Keokuk's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 4 through 10 and budgetary comparison information on pages 24 through 25 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Keokuk's basic financial statements. The financial statements for the five years ended June 30, 2007 (none of which are presented herein) were audited by another auditor who expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting.

The supplementary information, as listed in the table of contents, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

*CPA Associates PC*

December 8, 2008

## **City of Keokuk Management's Discussion and Analysis**

The City of Keokuk provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which begin on page 11.

### **FINANCIAL HIGHLIGHTS**

- The City's total disbursements exceeded total receipts by \$3,331,817 for the year resulting in a net decrease in total cash balances of 23% from the previous year. Cash balances in governmental activities decreased by \$1,123,542 primarily due to the expenditure of previous year's debt proceeds for street projects. Cash balances on business type activities decreased by \$2,208,275 due to the expenditure of previous year's bond proceeds for capital projects and equipment.
- The City received state and federal grant funds in the amount of \$1,189,771, the largest of which was \$934,633 for the Airport Improvement Program.
- The City's General Fund ended the year with a cash balance of \$220,347, which represents a 32.2% decrease in the balance of the fund from the previous year.
- The City of Keokuk continues to work with the Keokuk Habitat for Humanity to provide assistance in the construction of affordable housing. Keokuk also will be in receipt of monies through Southeast Iowa Regional Planning for restoration of homes in blighted areas, site specific, which has and will increase residential valuation and pride for our Keokuk citizens.
- In FY 2007-2008 the City of Keokuk, expended funds for the following capital projects which include streets, airport, waste water treatment plant, and solid waste collection. In the area of street construction, projects included High Street from 13th to 17th, North 16th street from Main to Morgan, Timberline and South 14th Street, and Concert from 10th to 16th street. 2006 GO Bond funds in amount of \$1,398,187 were used to finance work on these projects. From the enterprise funds, \$2,082,847 was expended from bond proceeds for work on the Digester project at the waste water treatment plant, the Combined Sewer Overflow project, and the new solid waste equipment. At the airport, \$946,181 was expended for fencing, taxilane reconstruction, and initial work on the updated master plan. The federal government reimbursement was 95% of the cost of these projects.
- In FY 2007-2008 Keokuk started a private citizen/industrial/commercial and financial fund drive to establish one of the finer park pavilions in the Midwest. Although privately financed, the creation of such will provide an amenity that will create pride and potential economic development.
- In FY 2007-2008 Keokuk embarked upon the construction of a new municipal aquatic center which will be completed in the spring of 2009.
- During FY 2006-2007 Keokuk received preliminary word that it will possibly be the proposed site for a wind turbine tower facility. This facility, if built, will employ a minimum of 350 employees and will provide a significant boost to our local economy.

## **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements as well as other requirements as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the government's financial activities.
- The Government-wide Financial Statements consist of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statements by providing information about the most significant funds.
- Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.
- Other Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

## **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with the accounting principals generally accepted in the United States of America. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statements*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include solid waste, bridge and the sewer system. These activities are financed primarily by user charges.

#### *Fund Financial Statements*

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Local Option Tax Urban Renewal Tax Increment and Employee Benefit, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Other Non-major governmental funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains the Enterprise Funds to provide information for the sewer, bridge and solid waste funds, considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The Internal Service Fund utilized by the City accounts for retirees, Keokuk Municipal Water Works and Low Rent Housing group health insurance.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.



## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$7.15 million to \$6.03 million. Our analysis below focuses on the changes in cash basis net assets of governmental activities.

### Changes in Cash Basis Net Assets of Governmental Activities (in thousands)

	2008	2007
Receipts:		
Program receipts:		
Charges for services	\$ 292	\$ 320
Operating grants, contributions and restricted interest	2,416	1,476
Capital grants, contributions and restricted interest	1,049	324
General receipts:		
Property tax	2,955	2,959
Local option sales tax	1,108	1,175
Tax increment financing	1,036	429
Debt service	428	303
Unrestricted interest on investments	419	456
Bond proceeds	-	4,229
Other general receipts	<u>671</u>	<u>1,697</u>
Total receipts	<u>10,374</u>	<u>13,368</u>
Disbursements:		
Public safety	4,061	4,979
Public works	1,419	1,370
Health and social services	-	-
Culture and recreation	1,061	1,069
Community and economic development	370	370
General government	585	493
Debt service	1,524	917
Capital projects	<u>2,438</u>	<u>1,332</u>
Total disbursements	<u>11,458</u>	<u>10,530</u>
Transfers, net	<u>(39)</u>	<u>(48)</u>
Increase (decrease) in cash balance	(1,123)	2,790
Cash balance, beginning of year	<u>7,156</u>	<u>4,366</u>
Cash balance, end of year	<u>\$ 6,033</u>	<u>\$ 7,156</u>

This represents a decrease of 23% of total activities, a decrease of 15.7% for government activities and a 30.3% decrease for business-type activities.

The cost of all governmental activities this year was \$11.45 million compared to \$10.53 million last year. However, as shown in the statement of activities and net assets on page 11, the amount that our taxpayers ultimately financed for these activities through City taxes was \$7.70 million because some of the cost was paid by those directly benefited from the programs (\$291,500) or by other governments and organizations that subsidized certain programs with grants and contributions (\$3,465,700). The City paid for the remaining public benefit portion of governmental activities with approximately \$7,701,050 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Change in Cash Basis of Net Assets Business-Type Activities (in thousands)		
	2008	2007
Receipts:		
Program receipts:		
Sewer charges	\$ 2,208	\$ 1,802
Bridge charges	94	109
Solid waste charges	561	564
General receipts:		
Bond proceeds	1,010	2,978
Other miscellaneous receipts	934	224
Transfers, net	<u>39</u>	<u>48</u>
Total receipts	<u>4,846</u>	<u>5,725</u>
Disbursements:		
Sewer	4,034	2,879
Bridge	1,963	373
Solid waste	<u>1,057</u>	<u>583</u>
Total disbursements	<u>7,054</u>	<u>3,835</u>
Increase (decrease) in cash balance	(2,208)	1,890
Cash balance, beginning of year	<u>7,296</u>	<u>5,406</u>
Cash balance, end of year	<u>\$ 5,088</u>	<u>\$ 7,296</u>

## INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the City's funds is to provide information on near-term inflows, outflows and cash balances of spendable resources. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the cash balance of the General Fund was \$220,347, decrease of \$104,873 from the prior year.
- The Road Use Tax Fund (RUTF) cash balance decreased by \$108,245 to \$239,301 during the fiscal year. This occurred due to increased spending.
- The Local Option Sales Tax cash balance increased to \$629,002 to \$2,055,071 during the fiscal year. This occurred to reserving funds for future capital projects.
- The Capital Projects Fund decreased \$1,377,886 to \$1,180,328 due to the expenditure of bond proceeds received in a prior period for capital projects, primarily street projects.

## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The cash balance of the Sewer Funds decreased by \$1,490,006 to \$1,002,006 primarily due to purchases of capital equipment and construction projects. Cash for these projects was funded by a bond issue in a prior period. Sewer rates, which were last increased in July, 2005, have been increased effective September 1, 2008. The cash balance of the Solid Waste Fund increased by \$292,260 to \$358,440 as there were some unspent funds from the revenue bond issue for the new sanitation equipment. Solid Waste rates, which were last increased July 1, 2005, were increased effective April 1, 2008. The cash balance in the Bridge Fund decreased by \$1,007,730 primarily due to a significant repair and capital expenditure. Transit rates (railroad tolls) are adjusted annually and are scheduled to be increased for the next fiscal year.

## BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the City Council annually adopts a budget following required public notice and hearings for all funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Over the course of the year, the City amended its operating budget. The amendment was approved on May 15, 2008 and resulted in an increase in revenues of \$173,000 and an increase in operating disbursements of \$2,320,000. Increases in revenues included intergovernmental and increases in expenditures included public safety, community and economic development, general government, debt service and business-type activities. The City had sufficient cash balances to absorb these additional costs. None of the amendments made during the 2008 fiscal year should have any impact on the 2009 fiscal year budget.

## DEBT ADMINISTRATION

At year-end, the City had approximately \$12,947,000 in bonds and other long-term debt compared to approximately \$12,908,000 last year as shown below.

Outstanding debt at year-end (in thousands)

	2008	2007
General obligation bonds	\$ 11,515	\$ 12,420
Revenue bonds	1,002	-
Capital loan notes	<u>430</u>	<u>488</u>
Total	<u>\$ 12,947</u>	<u>\$ 12,908</u>

The Constitution of the State of Iowa limits the amount of general obligation debt that cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation of \$11,945,000 is below the City's \$13.7 million legal debt limit. The City's general obligation bond rating continues to be A3, a rating that has been assigned by Moody's Investor Services.

More detailed information about the City's long-term liabilities is presented in Note 3 to the financial statements. It is important to note that the 1996 General Obligation Bonds are paid from Tax Increment Financing revenue to pay the required debt service for floodwall improvements by the City. All revenues derived from the Twin Rivers TIF district are directed toward debt service payments on the 2002 Capital Loan Notes. All revenues derived from Keokuk Senior Housing TIF are directed toward debt service payments on the 2005 General Obligation Bonds and bank debt for the industrial development project is being serviced from TIF revenues from that project.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The continued poor economy, high unemployment regionally, the State of Iowa's fiscal woes, the additional rollback and the decrease in the Utility Excise Tax has caused the City to continue to experience cuts in revenues resulting in decreased operating revenues for the City especially in general fund departmental operations. However, with the establishment of a state sanctioned Port Authority, to date, the only one in the state, has come renewed interest in industrial and commercial development. There is still concern regarding future property tax revenues resulting from State legislation which could overhaul the property tax system. Any change would not come into play immediately but could impact the City in future years.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report or request for additional information contact the Finance Manager's office at 415 Blondeau Street, Keokuk, Iowa 52632 or telephone at 319-524-2050.

## **FINANCIAL STATEMENTS**

**City of Keokuk**  
**Statement of Activities and Net Assets - Cash Basis**  
**As of and for the Year Ended June 30, 2008**

		Program Receipts			Net (Disbursements) Receipts		
		Charges for Service and Sales	Operating Grants Contributions, and Restricted Interest	Capital Grants Contributions	Governmental Activities	Business-Type Activities	Total
Functions / Programs:	Disbursements						
Governmental activities:							
Public safety	\$ 4,060,521	\$ 76,615	\$ 186,075	\$ -	\$ (3,797,831)	\$ -	\$ (3,797,831)
Public works	1,419,425	10,222	2,037,167	-	627,964	-	627,964
Culture and recreation	1,060,770	41,068	51,706	-	(967,996)	-	(967,996)
Community and economic development	370,397	-	75,947	-	(294,450)	-	(294,450)
General government	585,451	163,639	28,882	-	(392,930)	-	(392,930)
Debt service	1,523,847	-	-	-	(1,523,847)	-	(1,523,847)
Capital projects	2,437,932	-	36,625	1,049,347	(1,351,960)	-	(1,351,960)
Total government activities	11,458,343	291,544	2,416,402	1,049,347	(7,701,050)	-	(7,701,050)
Business-type activities:							
Sewer	4,033,997	2,208,335	10,797	-	-	(1,814,865)	(1,814,865)
Bridge	1,963,221	94,422	-	-	-	(1,868,799)	(1,868,799)
Solid waste	1,057,737	560,818	663,297	-	-	166,378	166,378
Total business-type activities	7,054,955	2,863,575	674,094	-	-	(3,517,286)	(3,517,286)
Total	\$ 18,513,298	\$ 3,155,119	\$ 3,090,496	\$ 1,049,347	(7,701,050)	(3,517,286)	(11,218,336)
General receipts:							
Property tax levied for:							
General purposes					2,954,540	-	2,954,540
Tax increment financing					1,036,347	-	1,036,347
Debt service					428,514	-	428,514
Local option sales tax					1,107,923	-	1,107,923
Unrestricted investment earnings					418,518	256,713	675,231
Bond proceeds					-	1,009,919	1,009,919
Transfers					(39,049)	39,049	-
Miscellaneous					670,715	3,330	674,045
Total general receipts and transfers					6,577,508	1,309,011	7,886,519
Change in cash basis net assets					(1,123,542)	(2,208,275)	(3,331,817)
Cash basis net assets beginning of year					7,156,286	7,296,189	14,452,475
Cash basis net assets end of year					\$ 6,032,744	\$ 5,087,914	\$ 11,120,658
Cash Basis Net Assets							
Restricted:							
Streets					\$ 239,301	\$ -	\$ 239,301
Sales tax					2,055,071	-	2,055,071
Employee benefits					1,054,667	-	1,054,667
Urban Renewal TIF					146,328	-	146,328
Debt service					389,987	-	389,987
Other purposes					763,121	-	763,121
Unrestricted					1,384,269	5,087,914	6,472,183
Total cash basis net assets					\$ 6,032,744	\$ 5,087,914	\$ 11,120,658

See notes to financial statements.

**City of Keokuk**  
**Statement of Cash Receipts, Disbursements and Changes in Cash Balances**  
**Governmental Funds**  
**As of and for the Year Ended June 30, 2008**

	Special Revenue					Debt Service	Capital Projects	Other Nonmajor Govern- mental	Total
	General	Road Use	Sales Tax	Employee Benefits	Urban Renewal TIF				
<b>Receipts:</b>									
Property tax	\$ 1,998,263	\$ -	\$ -	\$ 893,492	\$ -	\$ 428,514	\$ -	\$ 62,785	\$ 3,383,054
Tax increment financing collections	-	-	-	-	1,036,347	-	-	-	1,036,347
Other taxes	1,085,393	-	1,107,923	194,501	-	85,518	-	13,754	2,487,089
Use of money and property	359,452	-	21,006	3,989	-	-	96,862	-	481,309
Licenses and permits	161,416	-	-	-	-	-	-	-	161,416
Intergovernmental	408,099	978,982	-	-	-	-	1,049,347	58,147	2,494,575
Charges for services	164,847	-	-	-	-	-	-	-	164,847
Miscellaneous	101,511	-	-	1,537	-	-	36,625	25,540	165,213
Total receipts	<u>4,278,981</u>	<u>978,982</u>	<u>1,128,929</u>	<u>1,093,519</u>	<u>1,036,347</u>	<u>514,032</u>	<u>1,182,834</u>	<u>160,226</u>	<u>10,373,850</u>
<b>Disbursements:</b>									
Governmental activities:									
Public safety	4,054,327	-	-	-	-	-	-	-	4,054,327
Public works	566,316	851,919	-	-	-	-	-	-	1,418,235
Culture and recreation	1,059,749	-	-	-	-	-	-	-	1,059,749
Community and economic development	102,260	-	-	-	11,425	-	-	256,511	370,196
General government	584,972	-	-	-	-	-	-	-	584,972
Debt service	-	-	-	-	-	1,523,847	-	-	1,523,847
Capital projects	-	-	-	-	-	-	2,437,932	-	2,437,932
Total disbursements	<u>6,367,624</u>	<u>851,919</u>	<u>-</u>	<u>-</u>	<u>11,425</u>	<u>1,523,847</u>	<u>2,437,932</u>	<u>256,511</u>	<u>11,449,258</u>
Excess (deficiency) of receipts over disbursements	(2,088,643)	127,063	1,128,929	1,093,519	1,024,922	(1,009,815)	(1,255,098)	(96,285)	(1,075,408)
Other financing sources (uses):									
Operating transfers in (out)	<u>1,983,770</u>	<u>(235,308)</u>	<u>(499,927)</u>	<u>(1,002,971)</u>	<u>(1,148,720)</u>	<u>1,050,260</u>	<u>(122,788)</u>	<u>(63,365)</u>	<u>(39,049)</u>
Net change in cash balances	(104,873)	(108,245)	629,002	90,548	(123,798)	40,445	(1,377,886)	(159,650)	(1,114,457)
Cash balances beginning of year	<u>325,220</u>	<u>347,546</u>	<u>1,426,069</u>	<u>964,119</u>	<u>270,126</u>	<u>349,542</u>	<u>2,558,214</u>	<u>922,771</u>	<u>7,163,607</u>
Cash balances end of year	<u>\$ 220,347</u>	<u>\$ 239,301</u>	<u>\$ 2,055,071</u>	<u>\$ 1,054,667</u>	<u>\$ 146,328</u>	<u>\$ 389,987</u>	<u>\$ 1,180,328</u>	<u>\$ 763,121</u>	<u>\$ 6,049,150</u>
<b>Cash Basis Fund Balances</b>									
Reserved:									
Debt service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 389,987	\$ -	\$ -	\$ 389,987
Unreserved:									
General fund	220,347	-	-	-	-	-	-	-	220,347
Special revenue fund	-	239,301	2,055,071	1,054,667	146,328	-	-	379,229	3,874,596
Capital projects fund	-	-	-	-	-	-	1,180,328	-	1,180,328
Permanent fund	-	-	-	-	-	-	-	383,892	383,892
<b>Cash balance end of year</b>	<u>\$ 220,347</u>	<u>\$ 239,301</u>	<u>\$ 2,055,071</u>	<u>\$ 1,054,667</u>	<u>\$ 146,328</u>	<u>\$ 389,987</u>	<u>\$ 1,180,328</u>	<u>\$ 763,121</u>	<u>\$ 6,049,150</u>

See notes to financial statements.

**City of Keokuk**  
**Reconciliation of the Statement of Cash**  
**Receipts, Disbursements and Changes in Cash Balances**  
**to the Statement of Activities and Net Assets -**  
**Governmental Funds**  
**As of and for the Year Ended June 30, 2008**

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**Total governmental funds cash balances (page 12)** \$ 6,049,150

*Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.

(16,406)

**Cash basis net assets of governmental activities (page 11)** \$ 6,032,744

**Net change in cash balances (page 12)** \$(1,114,457)

*Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of employee health benefits to individual funds. The change on net assets of the Internal Service Fund is reported with governmental activities.

(9,085)

**Change in cash balance of governmental activities (page 11)** \$ (1,123,542)

See notes to financial statements.



**City of Keokuk**  
**Statement of Cash Receipts, Disbursements and Changes in Cash Balances**  
**Proprietary Funds**  
**As of and for the Year Ended June 30, 2008**

	<u>Enterprise Funds</u>				<u>Internal Service Fund Employee Health</u>
	<u>Sewer</u>	<u>Bridge</u>	<u>Solid Waste</u>	<u>Total</u>	
Operating receipts:					
Charges for service	\$ <u>2,208,335</u>	\$ <u>94,422</u>	\$ <u>560,818</u>	\$ <u>2,863,575</u>	\$ <u>344,659</u>
Total operating receipts	<u>2,208,335</u>	<u>94,422</u>	<u>560,818</u>	<u>2,863,575</u>	<u>344,659</u>
Operating disbursements:					
Business-type activities	<u>4,032,238</u>	<u>1,962,540</u>	<u>1,057,378</u>	<u>7,052,156</u>	<u>-</u>
Total operating disbursements	<u>4,032,238</u>	<u>1,962,540</u>	<u>1,057,378</u>	<u>7,052,156</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>(1,823,903)</u>	<u>(1,868,118)</u>	<u>(496,560)</u>	<u>(4,188,581)</u>	<u>344,659</u>
Non-operating receipts (disbursements):					
Interest on investments	59,622	197,091	-	256,713	-
Licenses and permits	3,330	-	-	3,330	-
Miscellaneous	10,797	663,297	-	674,094	-
Bond proceeds	246,919	-	763,000	1,009,919	-
Non-program	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(356,543)</u>
Net non-operating receipts (disbursements)	<u>320,668</u>	<u>860,388</u>	<u>763,000</u>	<u>1,944,056</u>	<u>(356,543)</u>
Operating transfers in	<u>13,229</u>	<u>-</u>	<u>25,820</u>	<u>39,049</u>	<u>-</u>
Net change in cash balances	(1,490,006)	(1,007,730)	292,260	(2,205,476)	(11,884)
Cash balances beginning of year	<u>2,492,012</u>	<u>4,771,941</u>	<u>66,180</u>	<u>7,330,133</u>	<u>(41,265)</u>
Cash balances end of year	\$ <u>1,002,006</u>	\$ <u>3,764,211</u>	\$ <u>358,440</u>	\$ <u>5,124,657</u>	\$ <u>(53,149)</u>
<b>Cash Basis Fund Balances</b>					
Unreserved	<u>1,002,006</u>	<u>3,764,211</u>	<u>358,440</u>	<u>5,124,657</u>	<u>(53,149)</u>
<b>Total cash basis fund balances</b>	\$ <u>1,002,006</u>	\$ <u>3,764,211</u>	\$ <u>358,440</u>	\$ <u>5,124,657</u>	\$ <u>(53,149)</u>

See notes to financial statements.

**City of Keokuk**  
**Reconciliation of the Statement of Cash Receipts, Disbursements**  
**and Changes in Cash Balances**  
**to the Statement of Activities and Net Assets -**  
**Proprietary Funds**  
**As of and for the year ended June 30, 2008**

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**Total enterprise funds cash balances (page 14)** \$ 5,124,657

*Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. The assets of the Internal Service Fund are included in business type activities in the Statement of Net Assets.

(36,743)

**Cash basis net assets of business type activities (page 11)** \$ 5,087,914

**Net change in cash balances (page 14)** \$(2,205,476)

*Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of employee health benefits to individual funds. The change on net assets of the Internal Service Fund is reported with business type activities.

(2,799)

**Change in cash balance of business type activities (page 11)** \$ (2,208,275)

See notes to financial statements.

**City of Keokuk**  
**Notes to Financial Statements**

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**Note 1. Summary of Significant Accounting Policies**

The City of Keokuk is a political subdivision of the State of Iowa located in Lee County. It was incorporated in 1847 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides solid waste removal and sewer utilities for its citizens.

Reporting Entity

For financial reporting purposes, the City of Keokuk has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and 1) the ability of the City to impose its will on that organization or 2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

Excluded Component Units

Keokuk Municipal Water Works is a component unit of the City of Keokuk. The Keokuk Municipal Water Works and the City of Keokuk are considered separate legal entities. The Keokuk Municipal Water Works meets the component unit definition because the City Council appoints the Board of Trustees of the Keokuk Municipal Water Works. However, since Keokuk Municipal Water Works operates under the accrual method of accounting and the City of Keokuk operates under the cash method of accounting, this component unit has not been presented in the accompanying financial statements. The financial statements of the Keokuk Municipal Water Works are available at the Water Works office, 20 North 4th Street, Keokuk, Iowa.

Keokuk Public Library Foundation is a component unit of the City of Keokuk. The Foundation, a separate legal entity, exists for the purpose of attracting funds to benefit the Public Library which serves the Keokuk area and to disburse those funds in a manner which will benefit the Library. The Foundation meets the definition of a component unit since it raises funds on behalf of the Library. The financial statements of Keokuk Public Library Foundation have not been audited, so this component unit has not been presented in the accompanying financial statements.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Keokuk Economic Development Corporation and Great River Regional Waste Authority.

**City of Keokuk**  
**Notes to Financial Statements**

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**Note 1. Summary of Significant Accounting Policies (continued)**

Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

**Special Revenue:**

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Local Option Sales Tax Fund is used to account for the revenues from the tax authorized by referendum and used for property tax relief, infrastructure, parks and recreation services.

The Employee Benefits Fund is used to account for the employee benefits paid.

**City of Keokuk**  
**Notes to Financial Statements**

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**Note 1. Summary of Significant Accounting Policies (continued)**

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Solid Waste Fund accounts for the operation and maintenance of the City's solid waste system.

The Bridge Fund accounts for the operation and maintenance of the City's bridge.

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for the financing of employee benefits goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

Measurement Focus and Basis of Accounting

The City of Keokuk maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with United States generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the public safety and public works functions.

**Note 2. Deposits and Investments**

The City's deposits at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

**City of Keokuk**  
**Notes to Financial Statements**

**Note 2. Deposits and Investments (continued)**

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council and the Treasurer of the State of Iowa; interest bearing accounts in the Iowa Public Agency Investment Trust, a jointly sponsored program for the members of the Iowa League of Cities, The Iowa State Association of Counties and the Iowa Association of Municipal Utilities.

At June 30, 2008, the City had the following investments:

<u>Type</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Maturity</u>
Federal National Mortgage Association (FNMA)	\$ 997,750	\$ 1,000,630	7/21/2011

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,000,000 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt in instruments that mature within 397 days but the maturities shall be consistent with the needs and use of the City.

Credit risk - The City's investment in the Iowa Public Agency Investment Trust is unrated.

**Note 3. Bonds and Notes Payable**

A summary of the City's June 30, 2008 general obligation and revenue bond indebtedness is as follows:

<u>Year Ended June 30,</u>	<u>General Obligation</u>		<u>Revenue Bonds</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 3,890,000	\$ 506,634	\$ 50,000	\$ 33,239	\$ 3,940,000	\$ 539,873
2010	705,000	346,081	60,000	28,171	765,000	374,252
2011	750,000	316,305	296,919	25,807	1,046,919	342,112
2012	780,000	284,337	65,000	23,443	845,000	307,780
2013	805,000	250,773	65,000	20,882	870,000	271,655
2014-2018	3,010,120	766,843	380,000	62,646	3,390,120	829,489
2019-2023	1,175,000	340,838	85,000	3,349	1,260,000	344,187
2024-2028	830,000	74,580	-	-	830,000	74,580
	<u>\$ 11,945,120</u>	<u>\$ 2,886,391</u>	<u>\$ 1,001,919</u>	<u>\$ 197,537</u>	<u>\$ 12,947,039</u>	<u>\$ 3,083,928</u>

**City of Keokuk**  
**Notes to Financial Statements**

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**Note 3. Bonds and Notes Payable (continued)**

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) A Solid Waste Enterprise Revenue Debt Service Reserve Fund of \$76,500 shall be maintained and used solely for the purpose of paying principal at maturity of or interest on the Note and Parity Obligations for the payment of which insufficient money shall be available in the Sinking fund.
- (c) The revenue note is subject to mandatory sinking fund redemption at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date on June 1 of each of the years and in the principal amount set opposite each year.

**Note 4. Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing, multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most plan members are required to contribute 3.90% of their annual salary and the City is required to contribute 6.05% of annual covered payroll. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2008, 2007, and 2006, was \$146,840, \$144,170, and \$143,209, respectively, equal to the required contributions for each year.

The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing, multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability and death benefits which are established by State statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 2836 104th Street, Urbandale, Iowa 50322.

Plan members are required to contribute 9.35% of earnable compensation and the City's contribution rate may not be less than 17% of earnable compensation (25.48% as of July 1, 2007). Contribution requirements are established by State statute. The City's contribution to the Plan for the years ended June 30, 2008, 2007, and 2006 was \$453,445, \$464,345, and \$483,477, respectively, equal to the required contributions for each year.

**City of Keokuk**  
**Notes to Financial Statements**

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**Note 5. Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death, or normal retirement. Upon retirement each employee is entitled to 100% of his accumulated sick leave up to a maximum of 71 days or 568 hours. City management employees may accumulate a maximum of 90 days or 720 hours. The Fire department employees are entitled to 900 hours of accumulated sick leave due to their longer average work week. Fire and police administration employees are entitled to 720 hours of accumulated sick leave.

Accumulated sick leave and vacation are not recognized as expenditures by the City until used or paid. The City's maximum liability for unrecognized accrued employee benefits as of June 30, 2008, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 338,205
Sick leave	<u>898,348</u>
	<u>\$ 1,236,553</u>

This liability has been computed based on rates of pay as of June 30, 2008.

**Note 6. Related Party Transactions**

The Keokuk Municipal Water Works pays the City on an annual basis. This amounted to \$200,000 for the year ended June 30, 2008 and is included as revenue in the general fund.

**Note 7. Industrial Development Revenue Bonds**

The City has issued \$8,745,000 of industrial revenue bonds of which \$6,200,000 is outstanding at June 30, 2008, for the purposes of constructing privately owned manufacturing and other related facilities within the City. The bonds are not direct or contingent liabilities of the City, as the revenue from lease agreements and property purchased with the bond proceeds are pledged for the total payment of principal and interest on the bonds and the bondholders can only look to these sources for repayment.

**Note 8. Deficit Fund Balance**

The Internal Service Employee Health Fund had a deficit balance at June 30, 2008 of \$53,149. The deficit balance was due to program costs incurred prior to receipt of revenues or transfers.



**City of Keokuk**  
**Notes to Financial Statements**

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**Note 9. Risk Management**

The City of Keokuk is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Note 10. Operating Leases - Lessor**

The City leases land to Crown Castle in Tolmie Park. The lease has a term of five years expiring December 2010, with the option to renew for three additional five-year period. Rental income for the year ended June 30, 2008 totaled \$13,800. Future minimum lease payments until the end of the lease term are:

2009	\$	13,800
2010		13,800
2011		5,750

The City leases hangar space to individuals on a month-to-month basis. Rental income for the year ended June 30, 2008 totaled \$22,010.

**Note 11. Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special revenue	\$ 1,983,770
Debt service	Special revenue	1,050,260
Special revenue	Capital projects	122,788
Enterprise funds	Special revenue	<u>39,049</u>
		<u>\$ 3,195,867</u>

**Note 12. Revolving Loan Fund**

The City has entered into an agreement with Southeast Iowa Regional Planning Commission (SEIRPC) to establish a revolving loan fund for commercial business growth and to assist in new business development. The City transfers funds to SEIRPC who administers and manages the revolving loan fund. The amounts to be transferred shall not exceed \$100,000. At June 30, 2008, \$24,111 was outstanding on these loans to businesses.

**City of Keokuk**  
**Notes to Financial Statements**

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**Note 13. Subsequent Event**

The Mississippi River flooding started in the Spring 2008 and affected several City owned buildings. The estimated cost to those damaged buildings not reimbursable by the government or insurance approximates \$402,000. The City is appealing FEMA's decision to deny coverage on two City owned buildings that were originally determined to be eligible for FEMA reimbursement.

**Note 14. Commitments and Contingency**

The City has committed to the following significant purchases as of June 30, 2008:

Five street projects	\$ 1,226,292
Digester improvement - first stage	436,263
Airport master plan update	108,466
Airport fencing and taxi lane	268,903
Combine sewer overflow project	<u>137,282</u>
Total	<u>\$ 2,177,206</u>

The City purchased a sewer truck but has not taken delivery of the truck yet. The Company the truck was purchased from has since gone out of business. Currently, the City is in negotiations with the manufacturer of the truck.

The City is negotiating a possible consent agreement between EPA, DNR and the City regarding the combined sewer corrective measures imposed by the EPA. The full scope of potential Corrective Sewer Overflow corrective measures is not known and the process for identifying such measures is ongoing as part of the Long Term Control Plan process.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**City of Keokuk**  
**Budgetary Comparison Schedule**  
**of Receipts, Disbursements, and Changes in Balances -**  
**Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds**  
**Required Supplementary Information**  
**Year Ended June 30, 2008**

	Governmental Fund Types <u>Actual</u>	Proprietary Fund Type <u>Actual</u>	Less Funds Not Required to be <u>Budgeted</u>	<u>Net</u>	<u>Budget Original</u>	<u>Budget Final</u>	Final to Actual Variance Favorable (Unfavorable)
Receipts:							
Property tax	\$ 3,383,054	\$ -	\$ -	\$ 3,383,054	\$ 3,428,212	\$ 3,428,212	\$ (45,158)
Tax increment financing collections	1,036,347	-	-	1,036,347	1,074,916	1,074,916	(38,569)
Other taxes	2,487,089	-	-	2,487,089	2,335,110	2,335,110	151,979
Use of money and property	481,309	256,713	-	738,022	553,278	553,278	184,744
Licenses and permits	161,416	-	-	161,416	138,331	138,331	23,085
Intergovernmental	2,494,575	-	-	2,494,575	3,632,541	3,805,541	(1,310,966)
Charges for services	164,847	3,208,234	344,659	3,028,422	2,772,460	2,772,460	255,962
Miscellaneous	165,213	677,424	-	842,637	532,678	532,678	309,959
Total receipts	<u>10,373,850</u>	<u>4,142,371</u>	<u>344,659</u>	<u>14,171,562</u>	<u>14,467,526</u>	<u>14,640,526</u>	<u>(468,964)</u>
Disbursements:							
Public safety	4,054,327	-	-	4,054,327	3,786,784	4,026,784	(27,543)
Public works	1,418,235	-	-	1,418,235	1,415,625	1,415,625	(2,610)
Culture and recreation	1,059,749	-	-	1,059,749	1,089,203	1,089,203	29,454
Community and economic development	370,196	-	-	370,196	362,509	382,509	12,313
General government	584,972	-	-	584,972	563,899	613,899	28,927
Debt service	1,523,847	-	-	1,523,847	1,441,518	1,551,518	27,671
Capital projects	2,437,932	-	-	2,437,932	4,550,000	4,550,000	2,112,068
Business-type	-	7,052,156	-	7,052,156	5,659,993	7,559,993	507,837
Non-program	-	356,543	356,543	-	-	-	-
Total disbursements	<u>11,449,258</u>	<u>7,408,699</u>	<u>356,543</u>	<u>18,501,414</u>	<u>18,869,531</u>	<u>21,189,531</u>	<u>2,688,117</u>
Excess (deficiency) of receipts over disbursements	(1,075,408)	(3,266,328)	(11,884)	(4,329,852)	(4,402,005)	(6,549,005)	2,219,153
Other financing sources	(39,049)	1,048,968	-	1,009,919	2,400,000	765,000	244,919
Net changes	(1,114,457)	(2,217,360)	(11,884)	(3,319,933)	(2,002,005)	(5,784,005)	2,464,072
Cash balances beginning of year	<u>7,163,607</u>	<u>7,288,868</u>	<u>(41,265)</u>	<u>14,493,740</u>	<u>11,199,223</u>	<u>14,452,476</u>	<u>41,264</u>
Cash balances end of year	<u>\$ 6,049,150</u>	<u>\$ 5,071,508</u>	<u>\$ (53,149)</u>	<u>\$ 11,173,807</u>	<u>\$ 9,197,218</u>	<u>\$ 8,668,471</u>	<u>2,505,336</u>

See accompanying independent auditor's report.

**City of Keokuk**  
**Required Supplementary Information**  
**Notes to Required Supplementary Information - Budgetary Reporting**  
**Year Ended June 30, 2008**

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The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except blended component units, internal service, non-expendable trust, and agency funds (when they exist). The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business-type. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects funds and permanent funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, budget amendments increased budgeted disbursements by \$2,320,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the public safety and public works functions.

## **OTHER SUPPLEMENTARY INFORMATION**

**City of Keokuk**  
**Statement of Cash Receipts, Disbursements and Changes in Cash Balances**  
**Nonmajor Governmental Funds**  
**As of and for the Year Ended June 30, 2008**

	<u>Special Revenue</u>		<u>Permanent</u>	
	<u>Economic Development</u>	<u>Emergency Tax Levy</u>	<u>Cemetery PC</u>	<u>Total</u>
Receipts:				
Property tax	\$ -	\$ 62,785	\$ -	\$ 62,785
Other taxes	-	13,754	-	13,754
Intergovernmental	58,147	-	-	58,147
Miscellaneous	<u>17,800</u>	<u>-</u>	<u>7,740</u>	<u>25,540</u>
Total receipts	<u>75,947</u>	<u>76,539</u>	<u>7,740</u>	<u>160,226</u>
Disbursements:			-	
Community and economic development	<u>256,511</u>	<u>-</u>	<u>-</u>	<u>256,511</u>
Total disbursements	<u>256,511</u>	<u>-</u>	<u>-</u>	<u>256,511</u>
Excess (deficiency) of receipts over disbursements	<u>(180,564)</u>	<u>76,539</u>	<u>7,740</u>	<u>(96,285)</u>
Other financing sources (uses)				
Operating transfer in	13,174	-	-	13,174
Operating transfer out	<u>-</u>	<u>(76,539)</u>	<u>-</u>	<u>(76,539)</u>
Total other financing sources (uses)	<u>13,174</u>	<u>(76,539)</u>	<u>-</u>	<u>(63,365)</u>
Net change in cash balances	(167,390)	-	7,740	(159,650)
Cash balances beginning of year	<u>546,619</u>	<u>-</u>	<u>376,152</u>	<u>922,771</u>
Cash balances end of year	<u>\$ 379,229</u>	<u>\$ -</u>	<u>\$ 383,892</u>	<u>\$ 763,121</u>
<b>Cash Basis Fund Balances</b>				
Unreserved:				
Special revenue fund	\$ 379,229	\$ -	\$ -	\$ 379,229
Permanent fund	<u>-</u>	<u>-</u>	<u>383,892</u>	<u>383,892</u>
<b>Total cash basis fund balances</b>	<u>\$ 379,229</u>	<u>\$ -</u>	<u>\$ 383,892</u>	<u>\$ 763,121</u>

See accompanying independent auditor's report.

**City of Keokuk  
Statement of Indebtedness  
Year Ended June 30, 2008**

<u>Obligation</u>	<u>Date of Issuance</u>	<u>Interest Rate</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
<b>General obligation bonds:</b>									
Corporate Purpose	06/01/96	5.00%	\$ 1,000,000	\$ 100,000	\$ -	\$ 100,000	\$ -	\$ 5,000	\$ -
Refunding Capital Notes	05/01/02	4.00-4.80%	4,685,000	2,990,000	-	250,000	2,740,000	130,863	-
Refunding Capital Notes	11/01/05	3.55-4.00%	2,440,000	2,030,000	-	225,000	1,805,000	78,250	-
Capital Loan Notes	08/01/06	4.20-6.00%	3,000,000	3,000,000	-	220,000	2,780,000	139,576	-
Capital Loan Notes	05/01/07	4.00%	3,000,000	3,000,000	-	-	3,000,000	130,000	-
Capital Loan Notes	05/01/07	4.00-4.25%	1,300,000	<u>1,300,000</u>	<u>-</u>	<u>110,000</u>	<u>1,190,000</u>	<u>58,749</u>	<u>-</u>
				<u>\$ 12,420,000</u>	<u>\$ -</u>	<u>\$ 905,000</u>	<u>\$ 11,515,000</u>	<u>\$ 542,438</u>	<u>\$ -</u>
<b>Revenue bonds:</b>									
Solid waste capital loan note	04/24/08	3.94%	\$ 765,000	\$ -	\$ 765,000	\$ -	\$ 765,000	\$ -	\$ -
Sewer revenue capital loan note	07/01/07	0.00%	670,000	<u>-</u>	<u>236,919</u>	<u>-</u>	<u>236,919</u>	<u>-</u>	<u>-</u>
				<u>\$ -</u>	<u>\$ 1,001,919</u>	<u>\$ -</u>	<u>\$ 1,001,919</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Capital loan notes:</b>									
Capital loan note-CAT end loader	08/20/03	2.65%	\$ 68,934	\$ 17,920	\$ -	\$ 17,920	\$ -	\$ 479	\$ -
Capital loan-Industrial development project	11/03/06	4.78%	470,120	470,120	-	50,000	420,120	22,783	-
Capital loan note	06/13/08	6.00%	10,000	<u>-</u>	<u>10,000</u>	<u>-</u>	<u>10,000</u>	<u>-</u>	<u>-</u>
				<u>\$ 488,040</u>	<u>\$ 10,000</u>	<u>\$ 67,920</u>	<u>\$ 430,120</u>	<u>\$ 23,262</u>	<u>\$ -</u>
<b>Total</b>				<u>\$ 12,908,040</u>	<u>\$ 1,011,919</u>	<u>\$ 972,920</u>	<u>\$ 12,947,039</u>	<u>\$ 565,700</u>	<u>\$ -</u>

See accompanying independent auditor's report.



**City of Keokuk**  
**Bond and Note Maturities**  
**June 30, 2008**

<b>Refunding Capital Notes</b>											
Year Ending June 30,	<u>Refunding Capital Notes</u> <u>Issued May 1, 2002</u>		<u>Refunding Capital Notes</u> <u>Issued November 1, 2005</u>		<u>Capital Loan Notes</u> <u>Issued August 1, 2006</u>		<u>Capital Loan Notes</u> <u>Issued May 1, 2007</u>		<u>Capital Loan Notes</u> <u>Issued May 1, 2007</u>		Total
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	
2009	4.00%	\$ 255,000	4.00%	\$ 235,000	6.00%	\$ 230,000	4.00%	\$ 3,000,000	4.25%	\$ 110,000	\$ 3,830,000
2010	4.10%	265,000	4.00%	245,000	6.00%	30,000	-	-	4.25%	115,000	655,000
2011	4.20%	280,000	4.00%	260,000	6.00%	30,000	-	-	4.25%	120,000	690,000
2012	4.30%	290,000	4.00%	270,000	6.00%	35,000	-	-	4.25%	125,000	720,000
2013	4.35%	300,000	3.55%	280,000	4.20%	35,000	-	-	4.25%	130,000	745,000
2014	4.45%	315,000	3.65%	290,000	4.25%	25,000	-	-	4.00%	140,000	770,000
2015	4.60%	330,000	3.70%	225,000	4.30%	85,000	-	-	4.05%	145,000	785,000
2016	4.70%	345,000	-	-	4.35%	50,000	-	-	4.10%	150,000	545,000
2017	4.80%	360,000	-	-	4.40%	50,000	-	-	4.15%	155,000	565,000
2018	-	-	-	-	4.25%	205,000	-	-	-	-	205,000
2019	-	-	-	-	4.30%	215,000	-	-	-	-	215,000
2020	-	-	-	-	4.30%	225,000	-	-	-	-	225,000
2021	-	-	-	-	4.35%	235,000	-	-	-	-	235,000
2022	-	-	-	-	4.38%	245,000	-	-	-	-	245,000
2023	-	-	-	-	4.40%	255,000	-	-	-	-	255,000
2024	-	-	-	-	4.40%	265,000	-	-	-	-	265,000
2025	-	-	-	-	4.40%	265,000	-	-	-	-	265,000
2026	-	-	-	-	4.40%	300,000	-	-	-	-	300,000
2027	-	-	-	-	-	-	-	-	-	-	-
2028	-	-	-	-	-	-	-	-	-	-	-
		<u>\$ 2,740,000</u>		<u>\$ 1,805,000</u>		<u>\$ 2,780,000</u>		<u>\$ 3,000,000</u>		<u>\$ 1,190,000</u>	<u>\$ 11,515,000</u>

See accompanying independent auditor's report.

**City of Keokuk**  
**Bond and Note Maturities**  
**June 30, 2008**

Revenue Bonds						Capital Loan Notes					
Year Ending June 30.	Issued April 24, 2008		Issued July 1, 2007			Year Ending June 30.	Issued November 3, 2006		Issued June 13, 2008		
	Interest Rate	Amount	Interest Rate	Amount	Total		Interest Rate	Amount	Interest Rate	Amount	Total
2009	3.94%	\$ 50,000	0.00%	\$ -	\$ 50,000	2009	6.00%	\$ 10,000	4.78%	\$ 50,000	\$ 60,000
2010	3.94%	60,000	0.00%	-	60,000	2010	-	-	4.78%	50,000	50,000
2011	3.94%	60,000	0.00%	236,919	296,919	2011	-	-	4.78%	60,000	60,000
2012	3.94%	65,000	-	-	65,000	2012	-	-	4.78%	60,000	60,000
2013	3.94%	65,000	-	-	65,000	2013	-	-	4.78%	60,000	60,000
2014	3.94%	70,000	-	-	70,000	2014	-	-	4.78%	60,000	60,000
2015	3.94%	75,000	-	-	75,000	2015	-	-	4.78%	80,120	80,120
2016	3.94%	75,000	-	-	75,000	2016	-	-	-	-	-
2017	3.94%	80,000	-	-	80,000	2017	-	-	-	-	-
2018	3.94%	80,000	-	-	80,000	2018	-	-	-	-	-
2019	3.94%	85,000	-	-	85,000	2019	-	-	-	-	-
		\$ 765,000		\$ 236,919	\$ 1,001,919			\$ 10,000		\$ 420,120	\$ 430,120

See accompanying independent auditor's report.

**City of Keokuk**  
**Schedule of Receipts by Source and Disbursements by Function**  
**- All Governmental Fund Types**

	Year Ended June 30.					
	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Receipts:						
Property tax	\$ 3,383,054	\$ 5,686,286	\$ 5,233,320	\$ 5,151,427	\$ 5,467,107	\$ 5,715,165
Tax increment financing	1,036,347	428,735	281,426	394,507	339,849	318,243
Other city tax	2,487,089	-	-	-	-	-
Use of money and property	481,309	456,053	238,818	187,059	216,807	217,866
Licenses and permits	161,416	153,330	150,293	163,742	63,685	74,946
Intergovernmental	2,494,575	1,733,506	2,325,377	2,161,785	1,867,060	2,385,411
Charges for services	164,847	194,165	212,194	241,114	254,060	184,625
Miscellaneous	<u>165,213</u>	<u>146,134</u>	<u>835,057</u>	<u>269,090</u>	<u>266,688</u>	<u>264,657</u>
Total	\$ <u>10,373,850</u>	\$ <u>8,798,209</u>	\$ <u>9,276,485</u>	\$ <u>8,568,724</u>	\$ <u>8,475,256</u>	\$ <u>9,160,913</u>
Disbursements:						
Public safety	\$ 4,054,327	\$ 4,978,881	\$ 3,858,498	\$ 3,856,541	\$ 3,674,279	\$ 3,682,830
Public works	1,418,235	1,370,077	1,367,974	1,326,854	1,317,452	1,452,305
Culture and recreation	1,059,749	1,068,664	1,560,772	1,132,176	1,206,421	1,210,640
Community and economic development	370,196	369,678	155,496	114,447	193,298	389,689
General government	584,972	493,239	524,259	512,685	536,495	598,778
Debt service	1,523,847	916,686	788,247	993,122	986,215	990,835
Capital projects	<u>2,437,932</u>	<u>1,332,133</u>	<u>1,250,768</u>	<u>895,264</u>	<u>575,254</u>	<u>1,272,339</u>
Total	\$ <u>11,449,258</u>	\$ <u>10,529,358</u>	\$ <u>9,506,014</u>	\$ <u>8,831,089</u>	\$ <u>8,489,414</u>	\$ <u>9,597,416</u>

See accompanying independent auditor's report.

**City of Keokuk**  
**Schedule of Expenditures of Federal Awards**  
**June 30, 2008**

<u>Federal Agency/Pass Through Agency Program - Grant Title</u>	<u>CFDA Number</u>	<u>Grantor Program Number</u>	<u>Program Disbursements</u>
<u>Indirect:</u>			
U.S. Department of Justice			
Governor's Office of Drug Control Policy			
Byrne Memorial State and Local Law Enforcement			
Assistance Formula Grant Program	16.738	07-JAG/C06-A08	\$ 80,886
Edward Byrne Justice Assistance Grant Program	16.738	2007-DJ-BX-0419	<u>27,418</u>
			<u>108,304</u>
Department of Housing and Urban Development			
Iowa Department of Economic Development			
Community Block Grant Program	14.228	07-HSG-023	<u>22,917</u>
U.S. Department of Agriculture			
Rural Business Enterprise Grant	10.769	16-056-426004829	<u>12,500</u>
<u>Direct:</u>			
Department of Transportation			
Federal Aviation Administration			
Airport Improvement Program	20.106	3-19-0050-15	14,726
Update Airport Master Plan	20.106	3-19-0050-16	<u>908,114</u>
			<u>922,840</u>
U.S. Department of Justice			
Governor's Traffic Safety Bureau			
Public Traffic Services - NHTSA	20.600	PAP 07-04, Task 08	4,585
Public Traffic Services - NHTSA	20.600	PAP 08-04, Task 08	7,945
Public Traffic Services - OWI Prevention Grant	20.605	PAP 07-163, Task 44	<u>1,646</u>
			<u>14,176</u>
Department of Federal Emergency Management Agency			
Public Assistance Grant	83.544	DR-1688-IA	<u>8,853</u>
			<u>\$ 1,089,590</u>

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Keokuk and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



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**Independent Auditor's Report on Internal Control  
Over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance  
with Government Auditing Standards**

Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Keokuk, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated December 8, 2008. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered City of Keokuk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of City of Keokuk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Keokuk's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described below, is not a material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects City of Keokuk's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of City of Keokuk's financial statements that is more than inconsequential will not be prevented or detected by City of Keokuk's internal control. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by City of Keokuk's internal control.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Keokuk's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Keokuk's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit City of Keokuk's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of City of Keokuk and other parties to whom City of Keokuk may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Keokuk during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*CPA Associates PC*

December 8, 2008



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**Independent Auditor's Report on Compliance with Requirements Applicable  
to Each Major Program and on Internal Control Over Compliance  
in Accordance with OMB Circular A-133**

Honorable Mayor and  
Members of the City Council:

Compliance

We have audited the compliance of City of Keokuk, Iowa, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal programs for the year ended June 30, 2008. City of Keokuk's major federal programs are identified in Part III of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal programs is the responsibility of City of Keokuk's management. Our responsibility is to express an opinion on City of Keokuk's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Keokuk's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Keokuk's compliance with those requirements.

In our opinion, City of Keokuk complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of City of Keokuk is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered City of Keokuk's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Keokuk's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance.

A control deficiency in the City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect non-compliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings as item III-A-08 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control. We consider the significant deficiency in internal control over compliance described in the accompanying Schedule of Findings as item III-A-08 not to be a material weakness.

City of Keokuk's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit City of Keokuk's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of City of Keokuk and other parties to whom City of Keokuk may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

*CPA Associates PC*

December 8, 2008



**City of Keokuk**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2008**

**Part I: Summary of the Independent Auditor's Results**

- (a) A unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than United States generally accepted accounting principles.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A significant deficiency in internal control over major programs was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- (f) The audit disclosed an audit finding which was required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
  - CFDA Number 20.106 - Department of Transportation - Airport Improvement Program
  - CFDA Number 20.106 - Department of Transportation - Update Airport Master Plan
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) City of Keokuk did not qualify as a low-risk auditee.

**City of Keokuk  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2008**

**Part II: Findings Related to the Financial Statements**

**SIGNIFICANT DEFICIENCY**

- II-A-08 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent one individual employee from handling a transaction from its inception to its completion. Management has not separated incompatible activities of personnel, thereby creating risks related to the safeguarding of cash and the accuracy of the financial statements.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City Council and management should continue to provide oversight and direction based upon their direct knowledge of the City's operations and day-to-day contact with employees to control and safeguard assets.

Response - The City will continue to review operating procedures and segregate employee duties to the extent financially feasible to maximize internal control.

Conclusion - Response accepted.

**Instances of Non-Compliance:**

No matters were noted.

**Part III: Findings and Questioned Costs for Federal Awards**

**Instance of Non-Compliance:**

No matters were noted.

**SIGNIFICANT DEFICIENCY**

- III-A-08 Segregation of Duties over Federal Receipts - The City did not properly segregate collection, deposit and record-keeping for receipts, including those related to federal programs. See item II-A-08.

**City of Keokuk**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2008**

**Part IV: Other Findings Related to Required Statutory Reporting**

IV-A-08 Certified Budget - Disbursements during the year ended June 30, 2008, exceeded the amounts budgeted in the public safety and public works functions. Chapter 384.20 of the Code of Iowa states in part that monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

IV-B-08 Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

IV-C-08 Business Transactions - We noted no evidence of business transactions between the City and City officials or employees which we believed to be in violation of statutory provision.

IV-D-08 Revenue Notes - A solid waste capital loan note dated April 24, 2008 requires a 10% reserve fund. The fund has not been established as of June 30, 2008.

Recommendation - The City should established a 10% reserve fund for the solid waste capital loan note.

Response - We will do this.

Conclusion - Response accepted.

IV-E-08 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

IV-F-08 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-G-08 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-H-08 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

**City of Keokuk**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2008**

**Part IV: Other Findings Related to Required Statutory Reporting (continued)**

IV-I-08 Financial Condition - The Internal Service Employee Health Fund had a deficit balance at June 30, 2008 of \$53,149.

Recommendation - The City should investigate alternatives to eliminate this deficit in order to return this account to sound financial position.

Response - This deficit was due to project costs or program costs incurred prior to receipt of revenues or transfers. This deficit will be eliminated.

Conclusion - Response accepted.

IV-K-08 Separately Maintained Records - The Keokuk Historic Preservation Commission and Emergency Corp maintain separate checking accounts. These accounts are separate from the City's accounts allowing transactions to go unrecorded. Accordingly, certain donations and expenditures from this account are not being appropriately included on the City's financial statements. The expenditures may not meet the requirements of public purpose and may not be appropriately included within the budget as required by the Code of Iowa.

Recommendation - Chapter 384.20 of the Code of Iowa states, in part, "A City shall keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any city purpose." For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records and reported to the Council on a monthly basis.

Response - We will meet with the Commissions and establish appropriate procedures.

Conclusion - Response accepted.